Financial Results for the FYE March 31, 2016 and Earnings Forecast for the FYE March 31, 2017

TOKAI Holdings Corporation

(Code: 3167)

May 10, 2016

TOKAI Holdings

FY03/16 Consolidated Performance

Consolidated Performance in FY03/16

- The sales decrease was attributable partly to falling gas prices (a combined ¥10.3 billion for city gas and LP gas).
- We spent ¥3.0 billion on sales expansion of Hikari Collaboration, but an increase in retail customers and income generated through a lag in the timing of gas price reductions kept the drop in operating profit to ¥800 million. All profit categories exceeded the initial forecast announced in May 2015.

	FY03/15	FY03/16	YoY	Forecast Announced in May 2015
Sales	¥187.5bn	¥180.9bn	-¥6.6 bn	¥192.2bn
Operating profit	¥9.0bn	¥8.2bn	-¥0.8 bn	¥7.8bn
Recurring profit	¥8.5bn	¥8.2bn	-¥0.4bn	¥7.4bn
Net income	¥3.9bn	¥3.5bn	-¥0.5bn	¥3.2bn
Income per share	¥34.16	¥30.01	-¥4.15	¥28.04

Segment Performance in FY03/16 (YoY Comparison)

- Sales decreased in the Gas and Petroleum segment due to falling gas prices (negative 11.1% impact). However, sales rose due to customer increases in the Information and Communications (Hikari Collaboration up by 215 thousand), CATV (up by 20 thousand), and Aqua (up by 3 thousand) segments.
- These customer increases boosted profit, as did a contribution from the time lag on LP gas (¥2.1 billion).

	Sales		Operating Profit	
	FY03/16	YoY	FY03/16	YoY
Gas and Petroleum	¥80.7bn	-13.2%	¥9.0bn	+¥1.3bn
Information and Communication	¥44.2bn	+10.3%	¥2.3bn	-¥2.6bn (Of which, -¥2.8bn for Hikari Collaboration)
CATV	¥24.6bn	+1.0%	¥2.0bn	+¥0.3bn
Construction/ Real estate	¥21.0bn	+4.8%	¥1.3bn	+¥0.2bn
Aqua	¥5.5bn	+10.7%	-¥1.1bn	+¥0.2bn
Others/ Adjustments	¥4.9bn	- 2.2%	¥-5.2bn	-¥0.2bn
Total	¥180.9bn	-3.5%	¥8.2bn	-¥0.8bn

Note: Stated operating profit is before the allocation of indirect expenses.

Group Customers

➢ In fixed-line communications, we made progress on transitioning 215 thousand customers to Hikari Collaboration, and customers increased by a combined 20 thousand in the Gas and CATV businesses.

(Unit: thousand customers)	Mar. 31, 2014	Mar. 31, 2015	Mar. 31, 2016	YoY
Gas (LP/city gas)	628	626	634	+8
Information and communications (fixed-line/wireless)	854	864	852	-12
<Of which, Hikari Collaboration>	—	<4>	<219>	<215>
Information and communications (mobile)	227	235	236	+1
CATV	693	690	710	+20
Aqua	122	130	133	+3
Security	19	18	18	-0
Total	2,519	2,537	2,558	+20

Note: Numbers below 1,000 have been rounded. Overlaps in communication services between Information and Communications (fixed-line/wireless) and CATV have been eliminated from the total.

Consolidated Financial Indicators

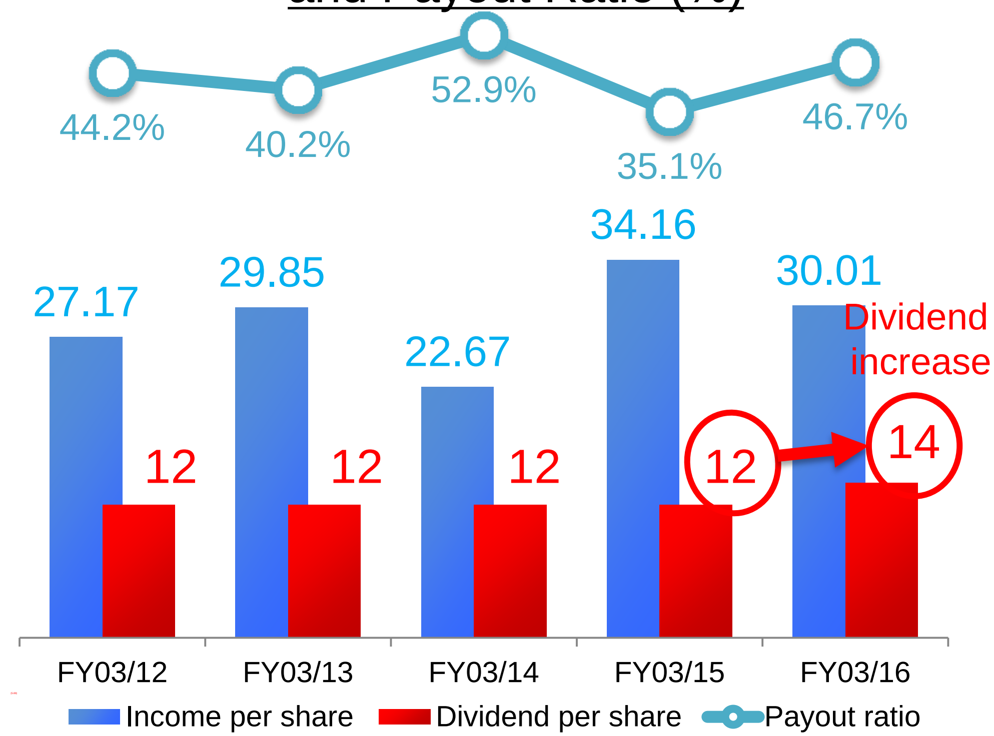
- Interest-bearing debt was ¥71.4 billion, continuing to improve YoY. Although negatively affected by the devaluation of investment securities (down ¥1.2 billion YoY), the equity ratio remained essentially unchanged.
- We maintained EBITDA at ¥25.0 billion, down YoY due to a ¥3.0 billion investment in Hikari Collaboration.

	Mar. 31, 2014	Mar. 31, 2015	Mar. 31, 2016	YoY
Total assets	¥173.6bn	¥165.7bn	¥160.3bn	-¥5.4bn
Total liabilities	¥135.3bn	¥122.2bn	¥118.3bn	-¥3.9bn
Total net assets	¥38.3bn	¥43.5bn	¥42.0bn	-¥1.5bn
Interest-bearing debt	¥85.8bn	¥73.1bn	¥71.4bn	-¥1.7bn
Equity ratio	21.6%	25.7%	25.6%	-0.1%
EBITDA	¥24.9bn	¥26.2bn	¥25.0bn	-¥1.3bn

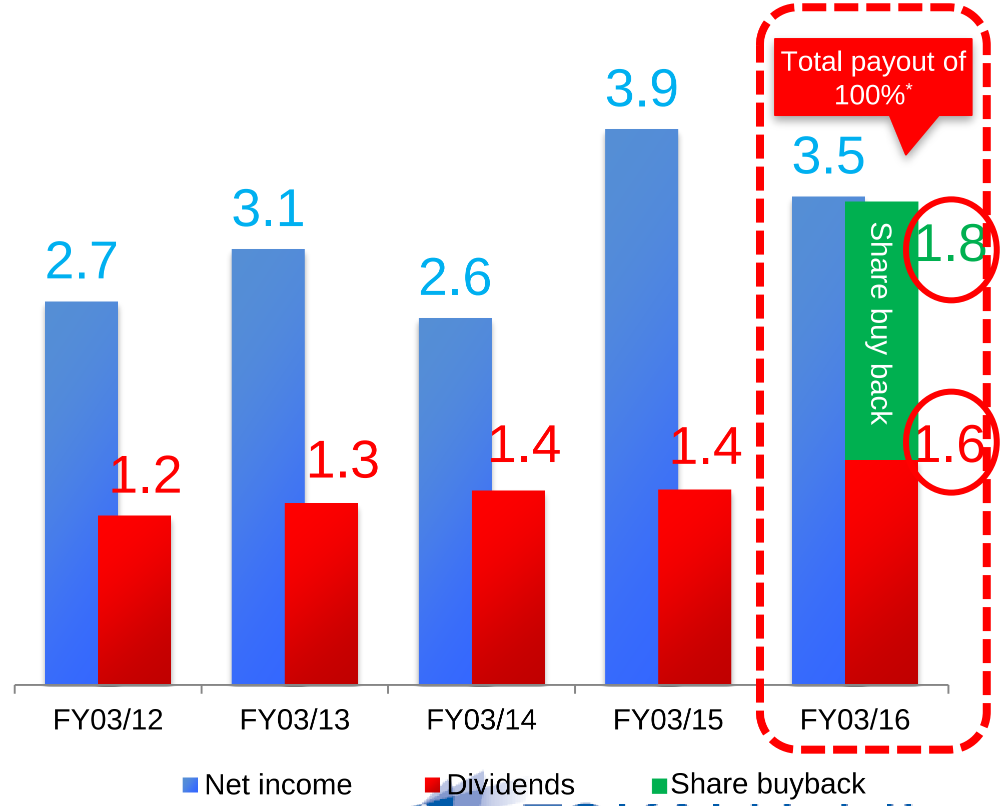
Provision of 100% of Profits to Shareholders (Dividends + Share Buyback)

- In line with the policy of paying back 100% of profits to shareholders in FY03/16, in addition to paying dividends the Company bought back an additional ¥1.8 billion in treasury shares (3.3 million shares).
- Also, as income was higher than initially forecast, the Company decided to increase dividends for the first time since its transition to a holding company (¥12/year→¥14/year).
- Furthermore, to dispel shareholder concern about future share dilution, the Company cancelled 10% of its treasury stock, or 15.52 million shares (down from 39.19 million shares, or 25.3%, on September 30, 2015).

Income per Share (¥/share), Dividends (¥/share) and Payout Ratio (%)



Net Income (¥bn) and Dividends (¥bn)



* (Total dividends (excluding subsidiaries) + treasury share purchases)÷ net income = 98.35%

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Performance Forecast for FY03/17

Consolidated Performance Forecast for FY03/17

- In FY03/17, we anticipate increase in sales and profits (with all profit categories reaching historic highs). We expect sales to grow for the first time in three years and profit to increase for the first time in two, leading to major increases in all profit categories.
- In the final year of IP16 "Growing" (announced in May 2014), we expect to achieve the plan's final-year profit targets.

	FY03/16	FY03/17	YoY	FY03/17 under IP16 "Growing"
Sales	¥180.9bn	¥187.1bn	+¥6.2bn	¥209.5bn
Operating profit	¥8.2bn	¥12.6bn	+¥4.3bn	¥12.6bn
Recurring profit	¥8.2bn	¥11.8bn	+¥3.7bn	¥11.8bn
Net income	¥3.5bn	¥6.2bn	+¥2.8bn	¥6.2bn
Income per share	¥30.01	¥55.13	+¥25.12	¥54.06

Segment Performance in FY03/17 (YoY)

- These figures incorporate the impact of gas price decreases in the previous year (-6.1%), but sales are forecast to rise due to more customers in the Gas (16 thousand), Hikari Collaboration (138 thousand), CATV (21 thousand) and Aqua (5 thousand) segments.
- Profit is forecast to rise thanks to higher profits due to increased customers in the Communications (Hikari Collaboration) and CATV businesses, with a move into the black in the Aqua segment also contributing.

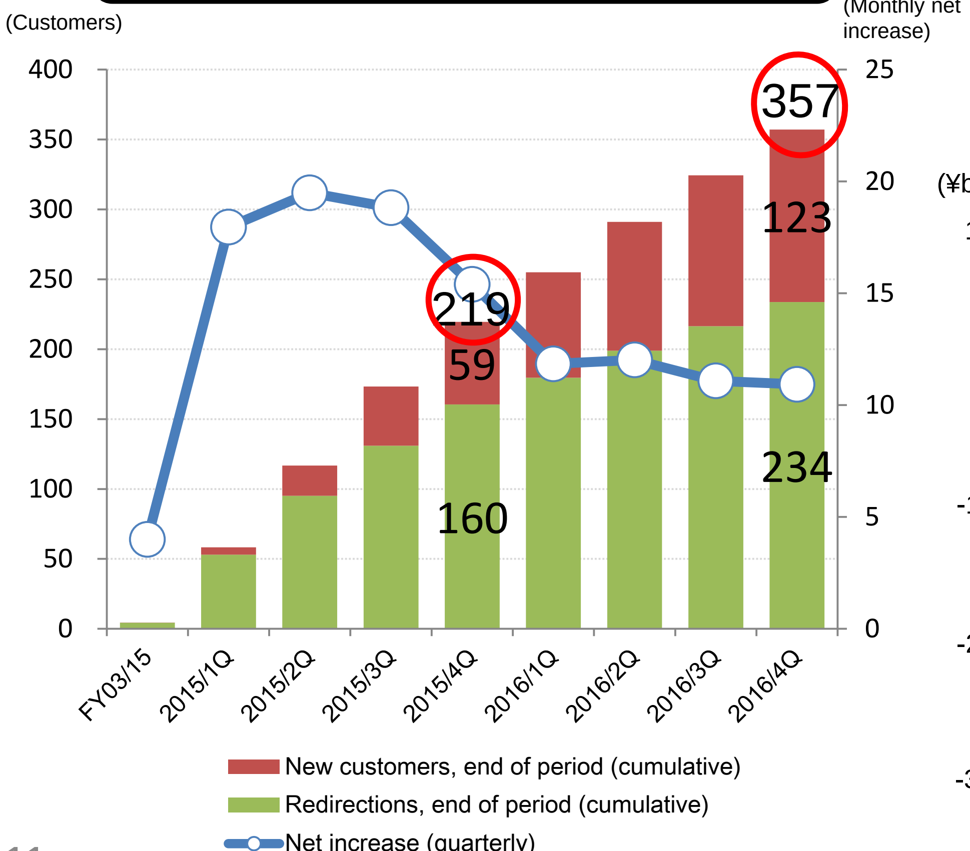
	Sales		Operating profit	
	FY03/17	YoY	FY03/17	YoY
Gas and Petroleum	¥75.9bn	- 6.0%	¥9.0bn	+¥0bn
Information and Communications	¥51.8bn	+17.1%	¥4.2bn	+¥1.9bn
CATV	¥25.4bn	+3.1%	¥2.4bn	+¥0.4bn
Construction and Real estate	¥22.5bn	+7.2%	¥1.5bn	+¥0.2bn
Aqua	¥5.8bn	+6.4%	¥0bn	+¥1.1bn
Others	¥5.7bn	+16.9%	-¥4.6bn	+¥0.6bn
Total	¥187.1bn	+3.4%	¥12.6bn	+¥4.3bn

Note: Stated operating profit is before the allocation of indirect expenses.

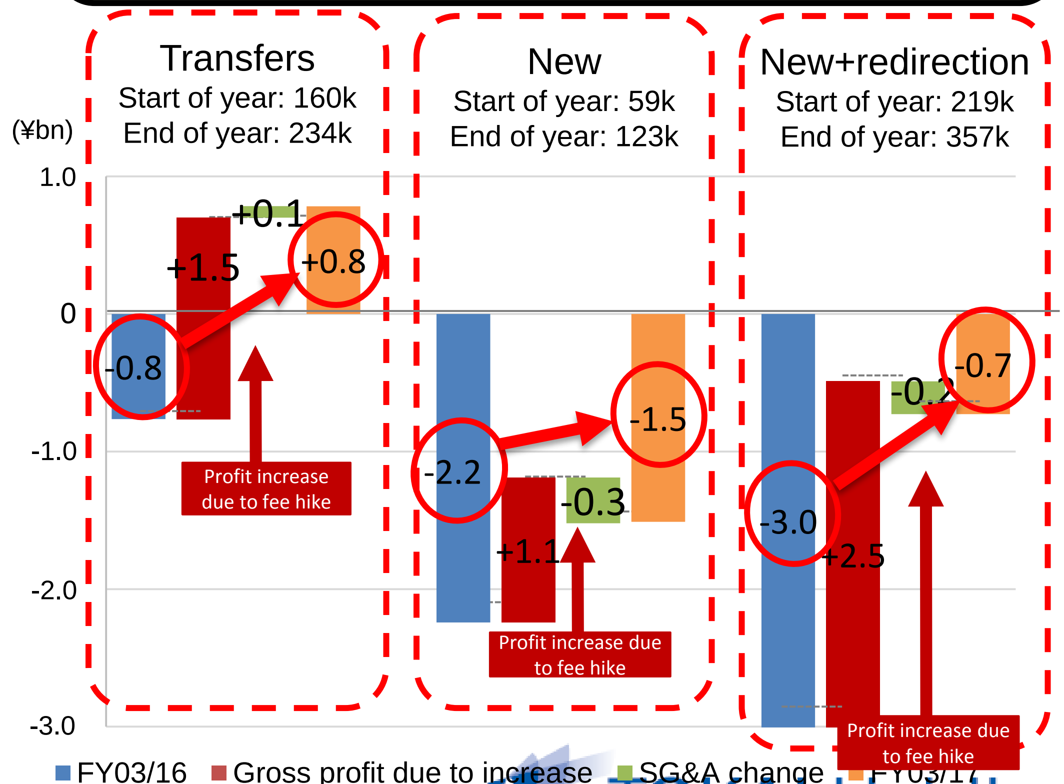
Promotion of the Hikari Collaboration Model

- In the ISP and NTT Hikari line portions, we will enjoy a full year of operations since the start of TNC Hikari (Shizuoka Prefecture) and @T COM Hikari (nationwide), as a one-stop provider of service, support, and billing.
- We expect customer transfers to move into the black in FY03/17. Higher profits due to a fee hike should overcome the increase in expenses to expand sales, resulting in a major improvement.

Anticipating stable net growth this year

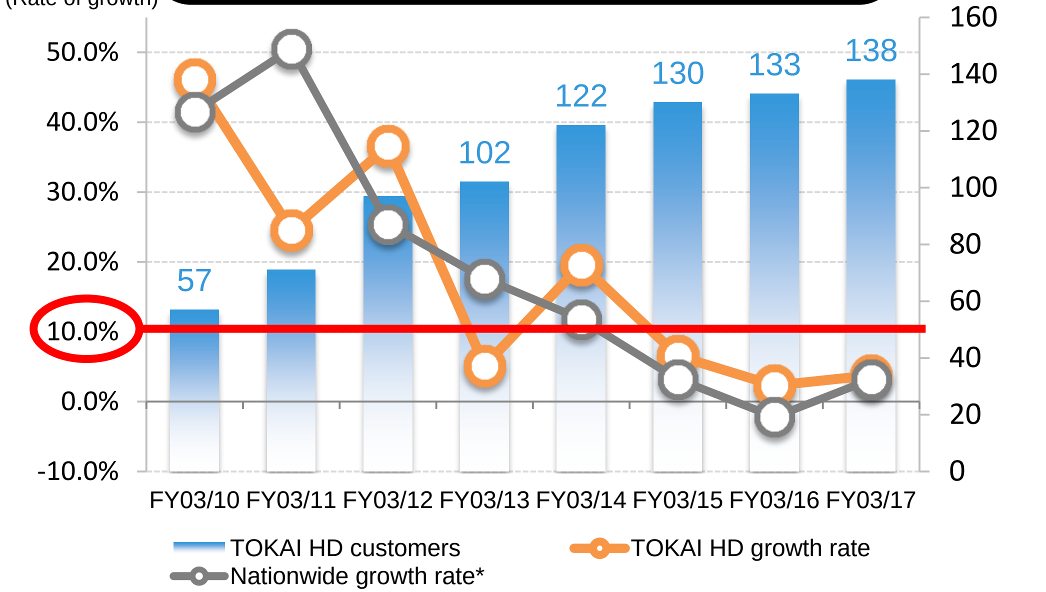


Covering acquisition costs in eight months for transferring customers, 24 months for new customers

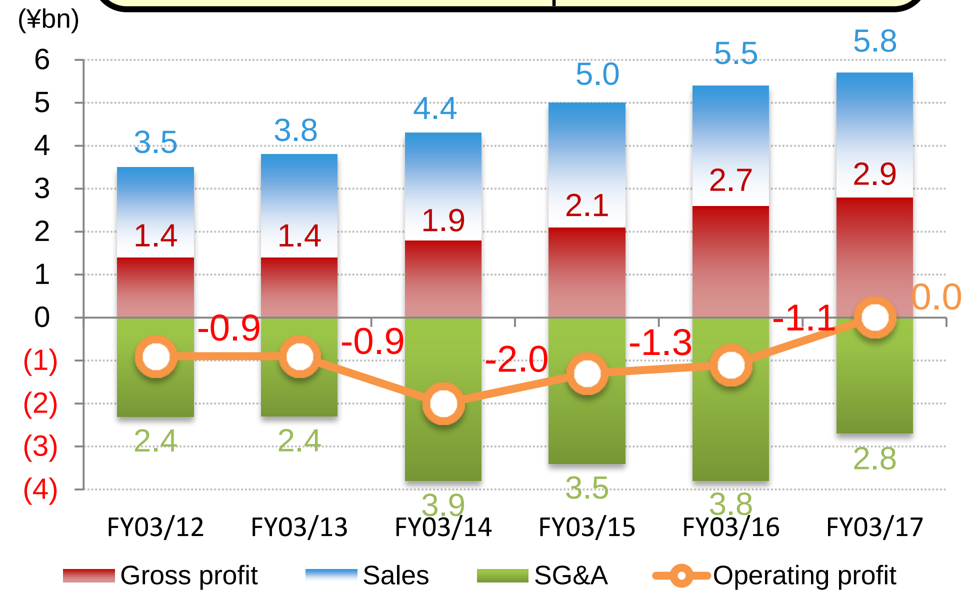


Aqua Business Moving into the Black with Efficiency Focus

Single-digit expansion in customer base since FY03/15



Improved sales and profits to result in breakeven with acquisition costs



Against a backdrop of the growing market, we have sought to reach demand by expanding our sales area, but with the customer growth rate slowing and fixed selling costs rising, we will shift toward prioritizing efficiency

Improve sales and profits through higher profits resulting from customer increases

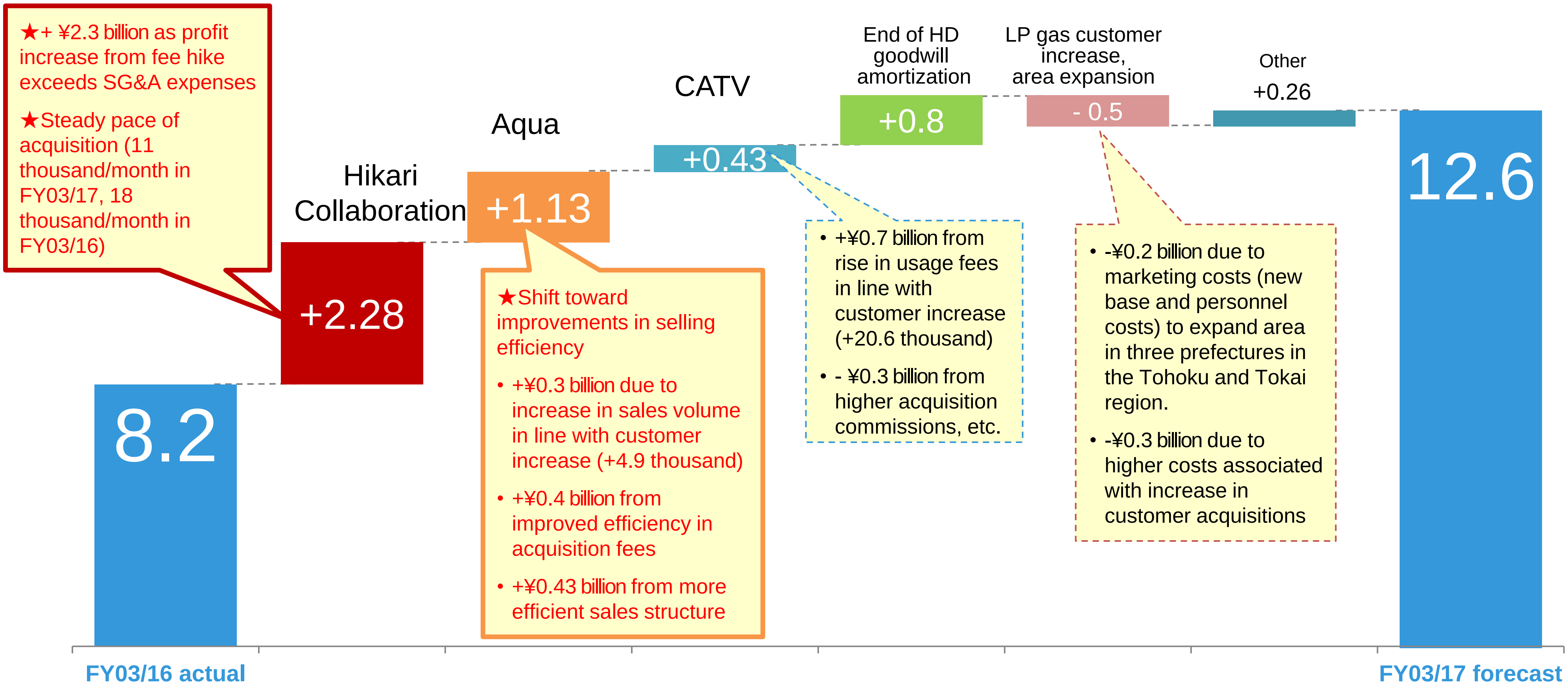
Identify areas where acquisition efficiency is low, concentrating sales capabilities on more promising areas

Along with area realignment, revise the sales personnel structure from the standpoint of efficiency

* According to a study by the Japan Delivery Water & Server Association (JDSA)

Profit Growth Factors (YoY Changes in Operating Profit)

- We anticipate profit increase of around ¥2.3 billion for Hikari Collaboration and ¥1.1 billion for the Aqua business. We also expect ¥0.4 billion in profit in the CATV business, and a ¥0.8 billion decrease in goodwill amortization from the transition to a holdings structure. Essentially all the expected factors support an increase in profit.
- Absent any major changes in the market environment, we expect to achieve these targets.



Group Customer Count Forecast

- We plan to boost our overall number of customers by around 47 thousand, mainly through growth in the Gas and CATV businesses (Hikari Collaboration to also progress toward around 140 thousand).

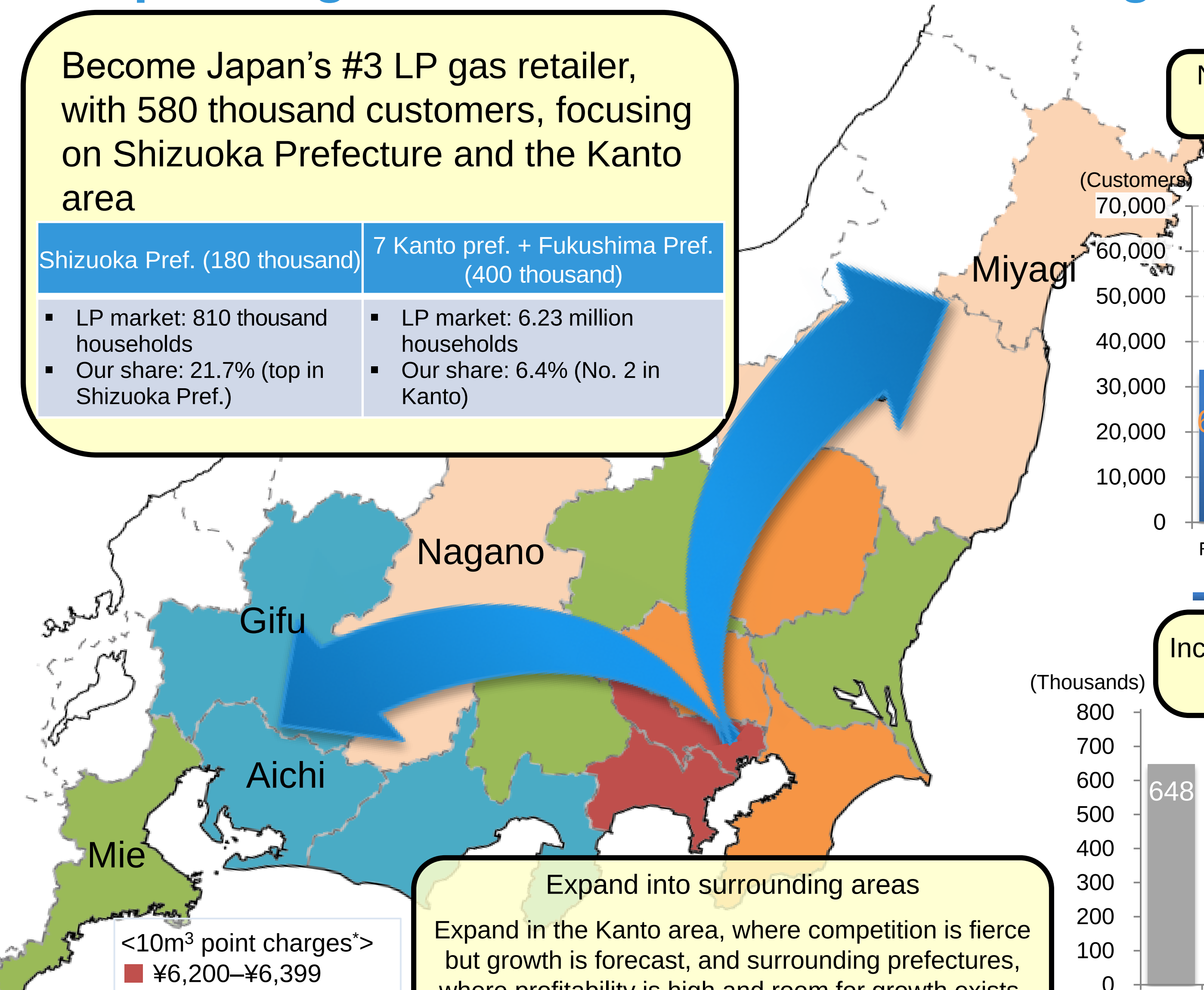
(Unit: thousand customers)	Mar. 31, 2016	Mar. 31, 2017	YoY
Gas (LP gas, city gas)	634	650	+16.2
Information and Communications (fixed-line/wireless)	852	857	+4.2
<Of which, Hikari Collaboration>	<219>	<357>	<138>
Information and Communications (mobile)	236	237	+1.3
CATV	710	730	+20.6
Aqua	133	138	+4.9
Security	18	18	+0.0
Total	2,558	2,604	+46.6

Note: Numbers below 1,000 have been rounded. Overlaps in communication services between Information and Communications (fixed-line/wireless) and CATV have been eliminated from the total.

Expanding Service Area to Boost Earnings in the Gas Business

Become Japan's #3 LP gas retailer, with 580 thousand customers, focusing on Shizuoka Prefecture and the Kanto area

Shizuoka Pref. (180 thousand)	7 Kanto pref. + Fukushima Pref. (400 thousand)
▪ LP market: 810 thousand households ▪ Our share: 21.7% (top in Shizuoka Pref.)	▪ LP market: 6.23 million households ▪ Our share: 6.4% (No. 2 in Kanto)



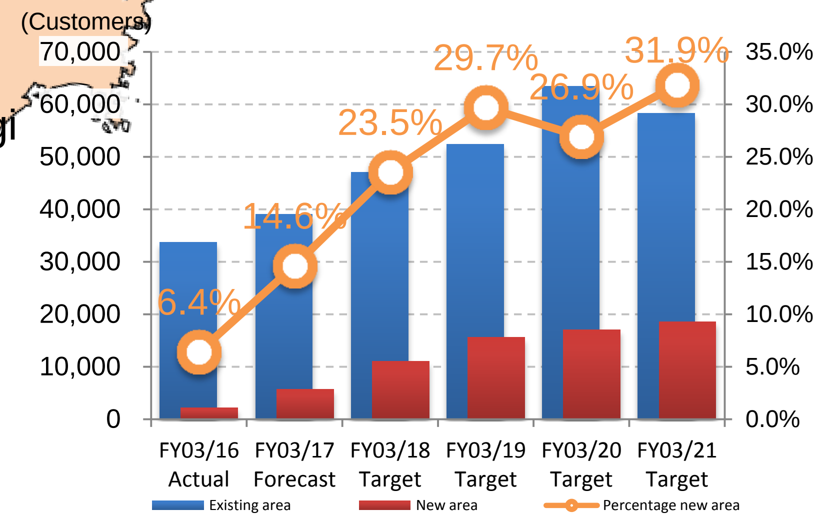
<10m^3 point charges*>
- ¥6,200–¥6,399
- ¥6,400–¥6,599
- ¥6,600–¥6,799
- ¥6,800–¥7,000
- ¥7,000+

Expand into surrounding areas

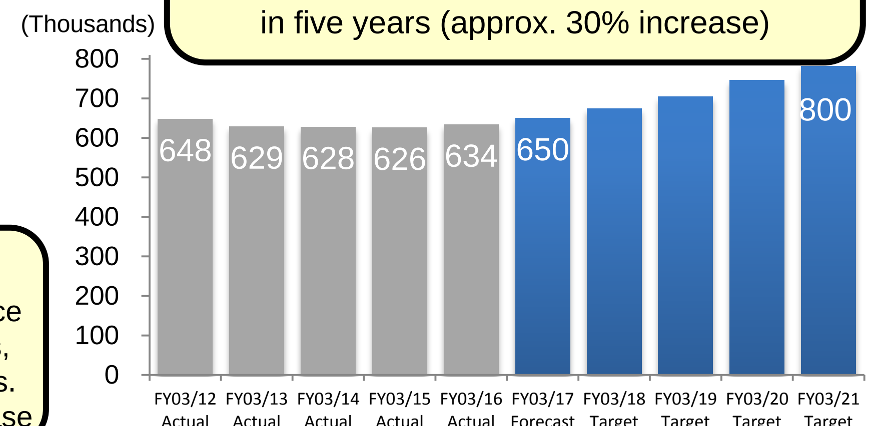
Expand in the Kanto area, where competition is fierce but growth is forecast, and surrounding prefectures, where profitability is high and room for growth exists. This combination should lead to a stable earnings base

Number of new customers (five years)

Increase new area proportion to 30%



Increase number of customers to 800 thousand in five years (approx. 30% increase)



* Oil Information Center study on LP gas market prices (October 31, 2015)

Key Consolidated Financial Indicators for FY03/17

➢ Through continued financial improvements, we plan to surpass FY03/17 targets under the Innovation Plan 2016 “Growing,” with year-end interest-bearing debt of ¥62.2 billion and an equity ratio of 30.8%.

	Mar. 31, 2011	Mar. 31, 2016	Mar. 31, 2017	FY03/17 under IP16 “Growing”
Operating cash flow	¥23.5bn	¥21.4bn	¥24.4bn	¥25.5bn
Capital expenditure	¥18.7bn	¥14.2bn	¥17.9bn	¥13.2bn
Interest-bearing debt	¥124.0bn	¥71.4bn	¥62.2bn	¥64.7bn
Equity ratio	7.7%	25.6%	30.8%	28.6%
EBITDA	¥26.3bn	¥25.0bn	¥28.3bn	¥28.7bn

Note: Capital expenditure includes intangible assets.

Shareholder Returns in FY03/17

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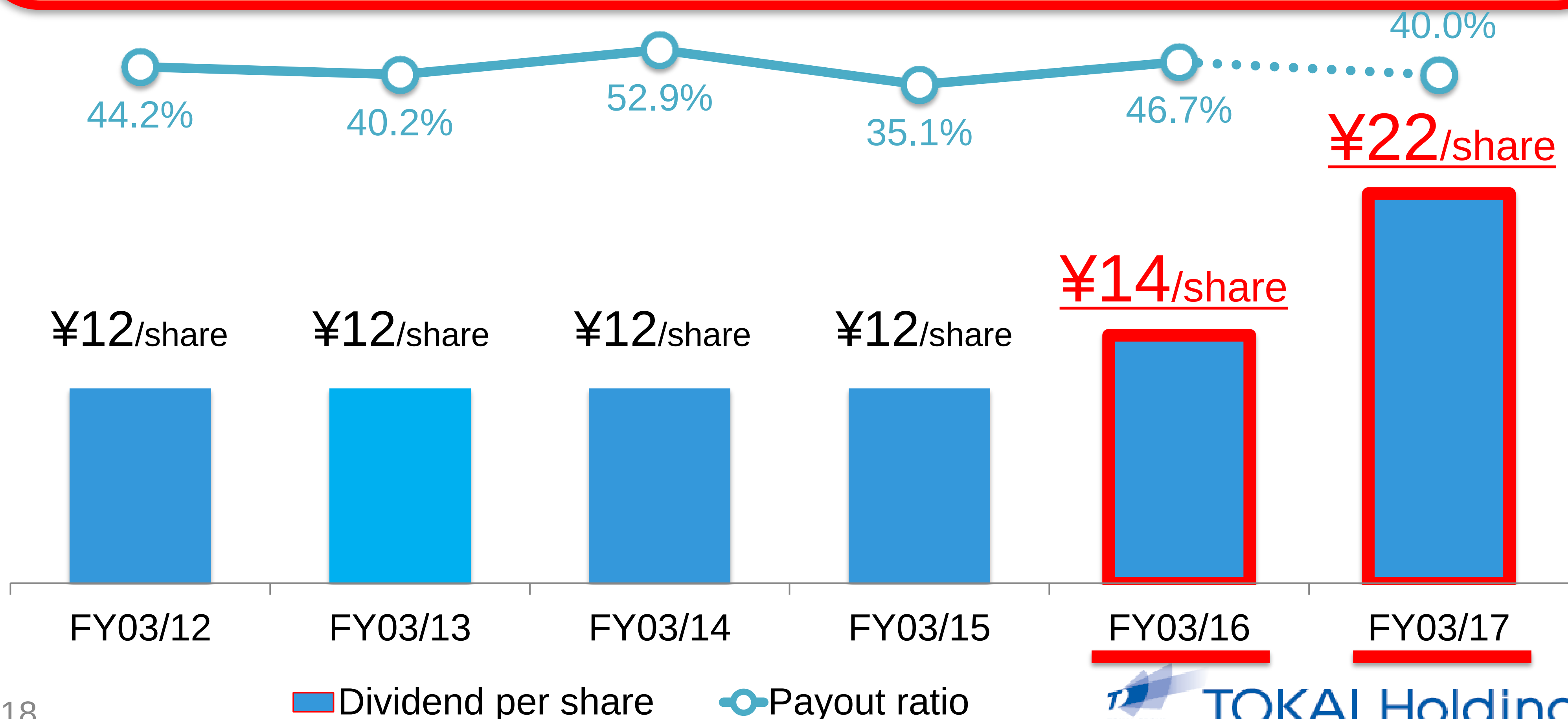
Shareholder Returns (Higher Dividends)

- In FY03/17, we forecast new historic highs for operating profit (¥12.6 billion) and net income (¥6.2 billion).
- With a dividend policy of attaining a 40% payout ratio, we plan to move from **past annual dividends of ¥12/share (+¥2 in FY03/16 to ¥14/share) to ¥22/share (interim and year-end dividends of ¥11/share each).**



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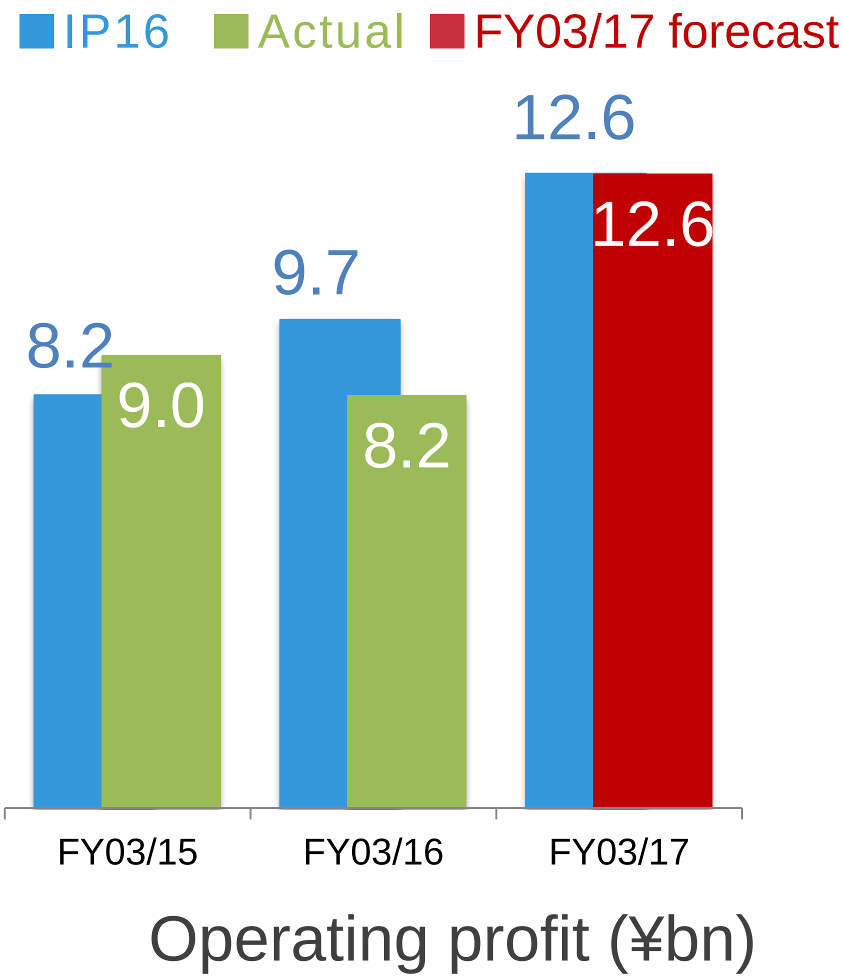
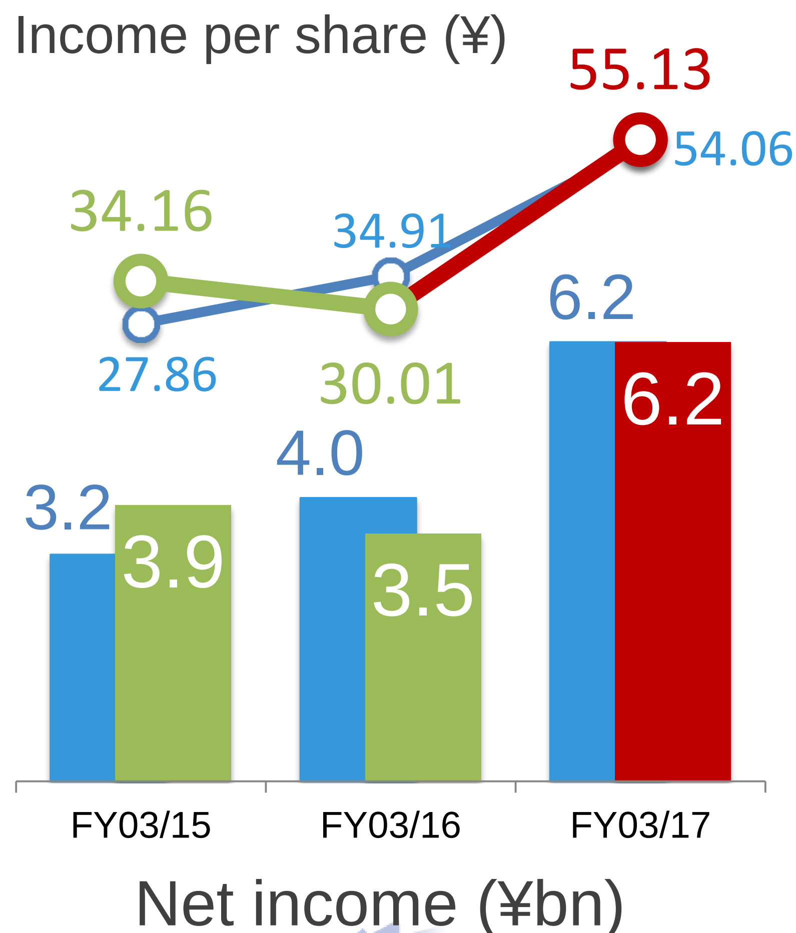
Expected Results of the Innovation Plan 2016 “Growing”

Profitability (Income Statement)

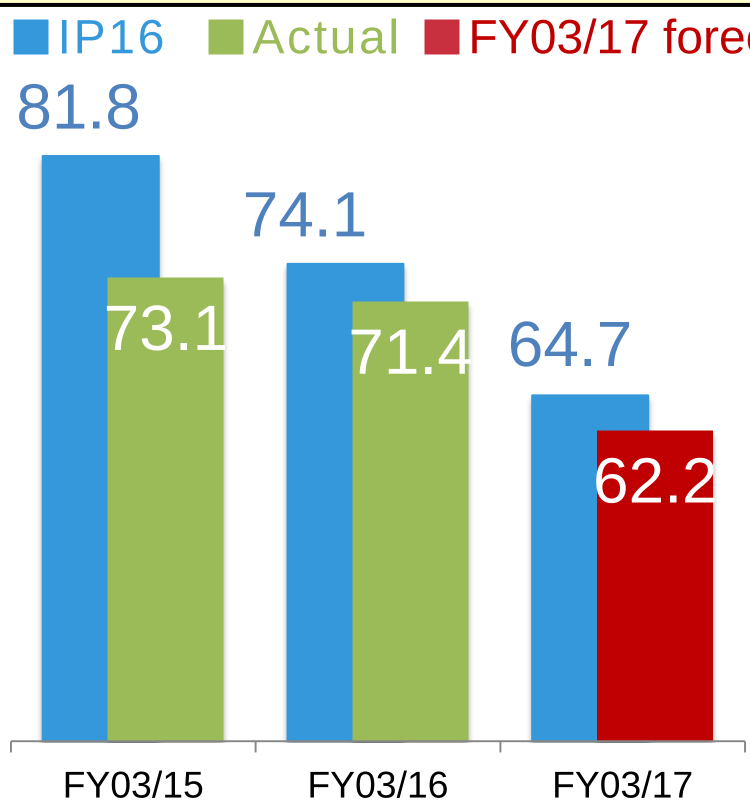
- The impact of Hikari Collaboration, which was not reflected in IP16, was limited to FY03/15. By the final year of the plan, FY03/17, we expect net income per share to rise to ¥55.13. This will equate to success on an issue under IP13: enhancing business profitability.



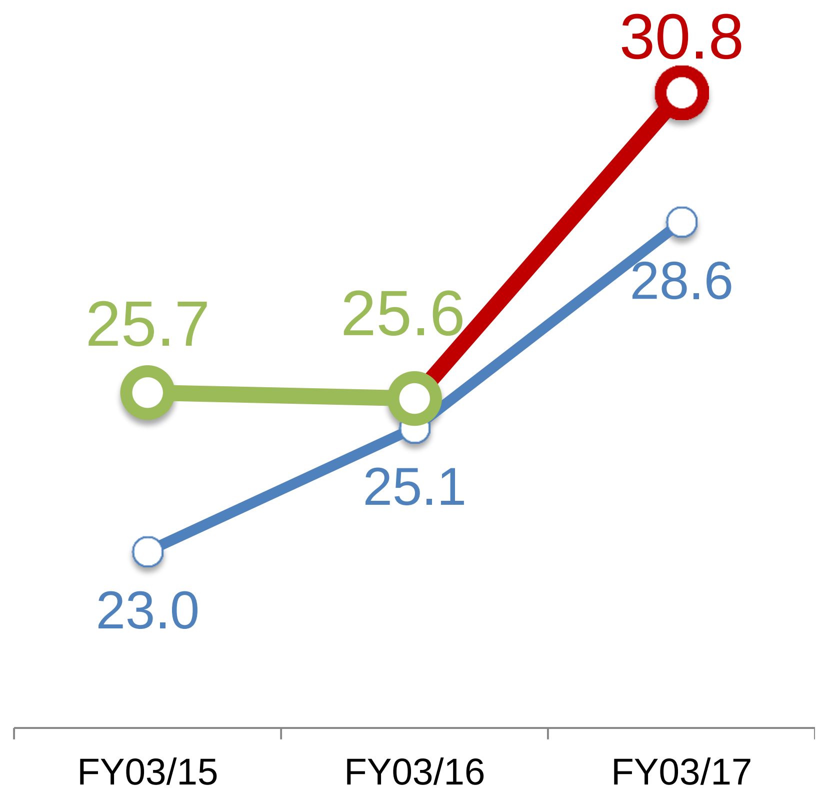


Financial Indicators (Balance Sheet)

- Just before our transition to a holding company, interest-bearing debt was ¥124.0 billion. We plan to halve this figure by the final year of the plan.
- In addition to lowering interest-bearing debt, through capital policies (such as disposal of treasury stock) and retained earnings, we expect to boost our equity ratio from 7.7% before our transition to a holding company to more than 30%.



Interest-bearing debt (¥bn)



Equity ratio (%)

Moving to the Next Growth Phase

- Our current plan, IP16 “Growing,” seeks to address an issue faced during our IP13 plan, namely enhancing business profitability. In the final year of the current plan, we expect to achieve record levels of performance.
- In the next year, we will formulate our next four-year plan, leading up to 2020. This will be a year of putting the Group on a path to future growth.

“Reinforcing the management structure” (2011–2013)	“Enhancing business profitability” (2014–2016)	“Implementing a growth strategy” (2017–2020)
Innovation Plan 2013	Innovation Plan 2016 Growing	Next Mid-Term Management Plan
Restructure business Improve finances Expand the customer base	Enhance profitability of main businesses Respond to liberalization Further strengthen finances	Expand area, pursue M&A Expand cross-selling Generate new services

The performance forecasts and forward-looking statements in these materials are calculated according to currently available information, and include potential risks and uncertainties. Please be aware that due to changes in a variety of factors, actual results may differ materially from the projections and other forward-looking statements in these materials.

Please contact us with any questions regarding these materials.

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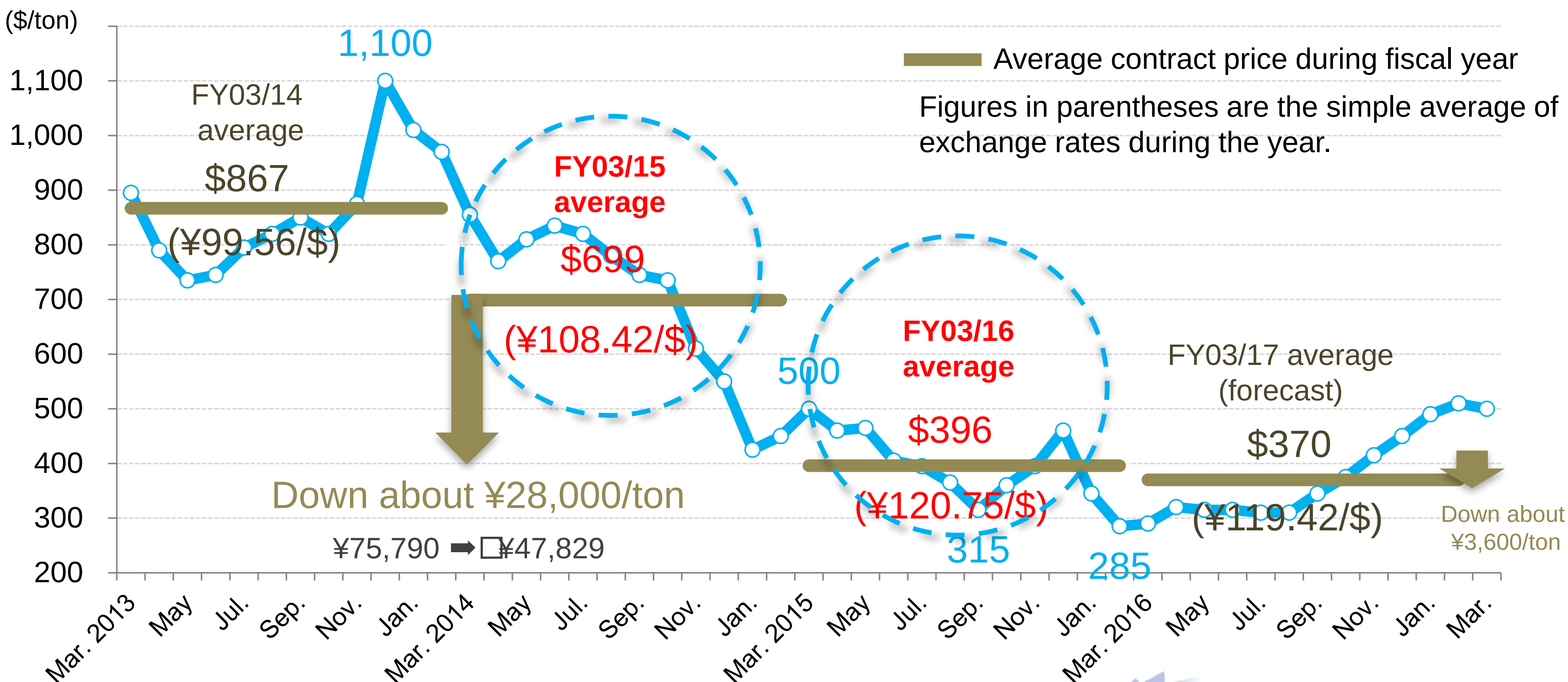
Reference) LP Gas Contract Prices, Past Three Years

- Two years ago, the average contract price when purchasing LP gas was $699/ton. Last year, the price fell to $396/ton (down $333/ton). Meanwhile, average exchange rates two years ago were ¥108.42/$, moving to ¥120.75/$.
- As a result, last year the average purchase price per ton of LP gas was ¥28,000 lower (down 37%) from two years ago.



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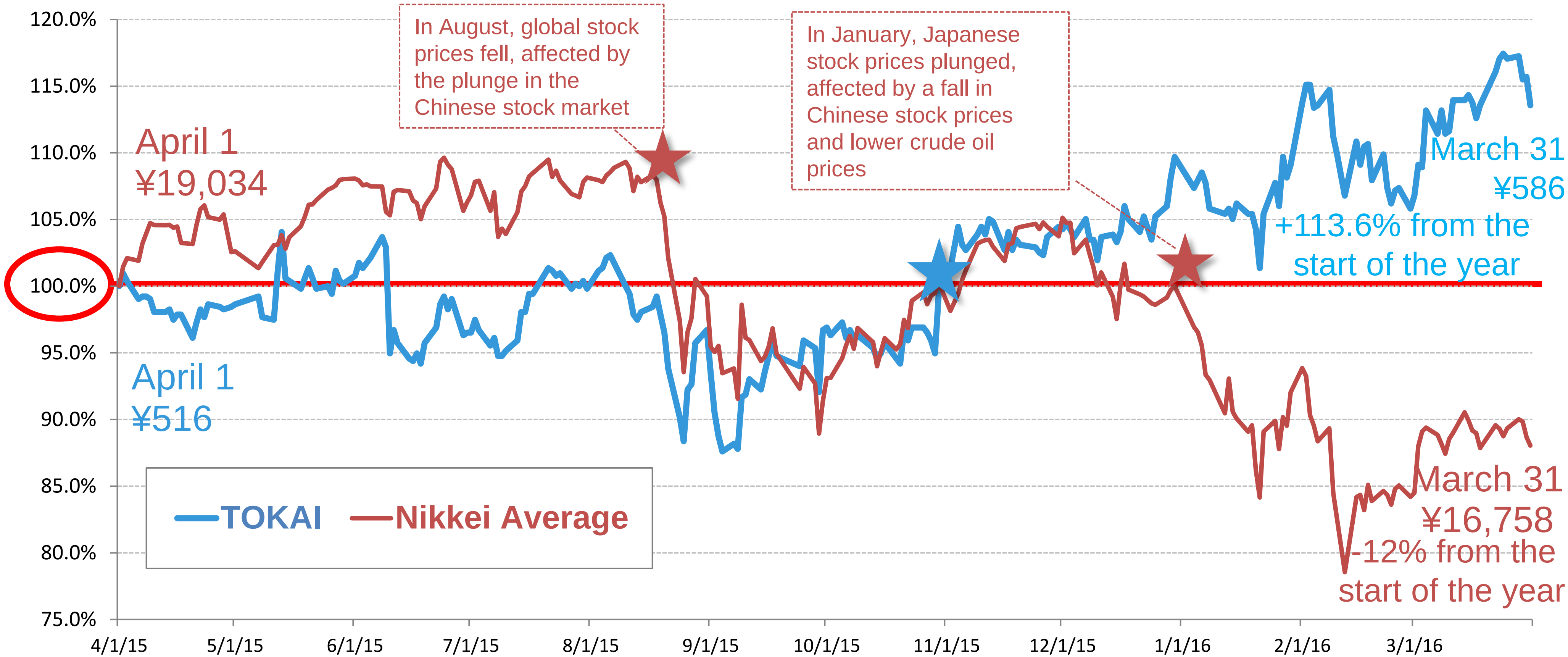
Reference) Share Price in FY03/16 (April 2015 = 100)

- Last August and again early this year, Japanese stock market prices declined due to the effect of plunging Chinese stock prices, falling crude oil prices, and yen appreciation. The Nikkei Average consequently dropped by 12% from the beginning of the year into ¥16,000 territory.
- Despite this environment, the Company's share price sustained high growth levels of more than 10%. (On May 6, the Nikkei closed at ¥16,106, down 15% from the beginning of the year. Our stock price was ¥617, up 20%.)



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